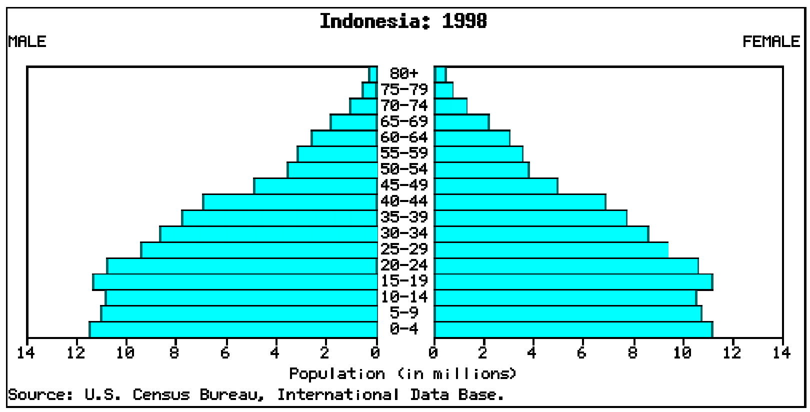
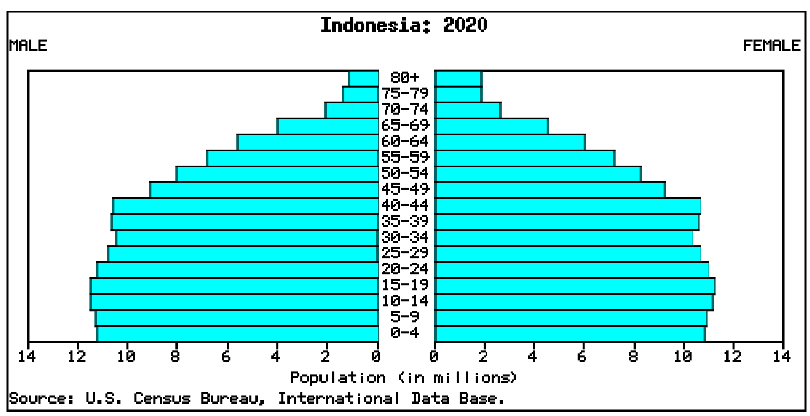
Indonesia

Summary of Current System			
	Pillar 1	**Pillar 2**	**Pillar 3**
Type:	♦ Defined-contribution		♦ Defined-benefit or defined-contribution, or profit-sharing
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ Fully-funded		♦ Fully-funded
Coverage:	♦ Companies with 10+ employees or payroll of Rp. 1,000,000		♦ Full-time employees of participating employers
Eligibility:	♦ Age 55 for men and women		♦ Age 55 for men and women





Challenges Facing Pension System

- ❑ Low compliance rate
- ❑ High administrative costs
- ❑ Demographic shifts

Summary of Current System

The current pension system in Indonesia includes a mandatory occupational (Pillar I) system and a voluntary employer-sponsored private pension plan (Pillar III). The mandatory occupational system, called *Jamsostek* (*jaminan sosial tenaga kerja*), consists of a mandatory defined-contribution savings fund. Separate pension programs have been established for civil servants and employees of state-sponsored enterprises.

The *Jamsostek* program (and its pre-cursor, *Astek*) was implemented in February 1992 to meet the basic social insurance needs (e.g., death and disability and old age benefits) of employees and their dependents. A public enterprise called Pt. Astek administers the *Jamsostek* program. In addition to providing retirement benefits, *Jamsostek* covers accident, death and health care benefits.

Participation in *Jamsostek* is mandatory for all companies with 10 or more employees or a monthly payroll of Rp. 1,000,000 or more. Firms with less than 10 employees may choose to participate in *Jamsostek*, however, continued participation is mandatory after initial enrollment into the program. Both employers and employees contribute to the program, with employers committing 3.7 percent of payroll and employees contributing 2.0 percent of earnings.

Employees (and their dependents) participating in this savings program begin receiving pension benefits under any of the three following conditions: (1) retirement at age 55 for both men and women, (2) death before age 55, or (3) total and permanent disability. Benefits paid to employees are based on the accumulation of the employer and employee contributions including accrued interest. For retirement or disability, benefits less than Rp. 3 million may be paid as a lump-sum while benefits exceeding Rp. 3 million may be made in installments for a period up to five years.

Voluntary employer-sponsored pension plans are another component of Indonesia's pension system. Under the Pension Fund Law passed in March 1992, employers interested in providing these benefits must establish and maintain their pension plans in accordance with the law. Employers may

Indonesia

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	212,942	276,017
Life Expectancy at Birth (Years)	62.49	70.79
Total Fertility Rate (Child Born per Woman)	2.61	2.12
Age Dependency Ratio (percent)	10.6	17.4
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	1.8	1.2

Source: U.S. Bureau of the Census. International Data Base.

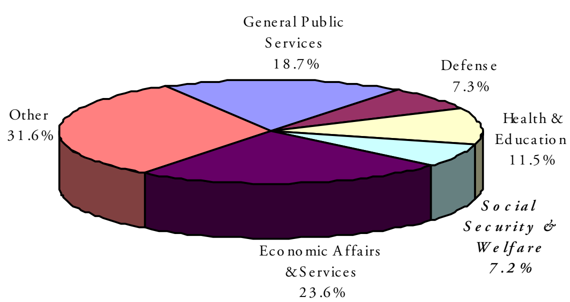
Economic	*1996*
GNP (PPP in billions)[1]	652.3
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	7.5
GNP Per Capita (in PPP)[1]	3,310
Inflation Rate (percent)[2]	7.9
Labor Force Participation Rate (percent)[3]	47.1
Unemployment Rate (percent)[3]	4.0

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio (percent)	n/a
Employee Payroll Tax Contributions for *Jamsostek* (percent)	2.0
Employer Payroll Tax Contributions for *Jamsostek* (percent)	3.7
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP (percent)	n/a

Source: U.S. Social Security Administration.

GOVERNMENT SPENDING BY SECTOR, 1996



Source: International Monetary Fund. Government Finance Statistics Book, 1997.

provide the following types of pension plans: (1) defined-benefit, (2) defined-contribution, or (3) profit-sharing plans. The defined benefit model is the most prevalent type of pension plan offered by employers, as many companies have mirrored the plans offered by the civil servants', military and state-owned enterprises' programs, which are largely defined-benefit pension plans.

Challenges Facing Pension System

There are considerable challenges facing the Indonesian pension system. The *Jamsostek* program has been plagued with low compliance rates, high administrative costs, and public distrust due to allegations of mismanagement of funds.

Low compliance rates have troubled the program; only 21 percent of registered companies (representing about 14.6 million Indonesians) contributed to the country's mandatory social security program in 1997. The administrative costs to contributions ratio for *Jamsostek* are relatively high at 12 percent. In comparison, this ratio was 9 percent in the Philippines and 2 percent in Malaysia. In December 1997, there were allegations that *Jamsostek* had mismanaged investment funds. The program's low return on investment for 1996 was 11.6 percent, despite a healthy performance by premium income.

Another element that will influence the future course of pension reform efforts are the longer term demographic shifts that will occur in Indonesia. The current workforce in Indonesia is relatively young, however this population will experience significant aging. In addition, the expected increase in life expectancy will increase the duration of retirement from 15 to 20 years. Finally, as Indonesia becomes more industrialized, the emphasis on familial or community-based sources for social security will dwindle. This shift will increase the burden in providing more formalized social protection for the elderly.

Pension Reform Efforts

Pension reform efforts in Indonesia have concentrated on establishing voluntary employer-based pension plans. In 1992, the Pension Fund Law was passed which allowed the development of employer-based pension plans. To date, there have no formal efforts to reform the mandatory *Jamsostek* system. Recently, the Government of Indonesia announced its intention to review the law that gave *Jamsostek* the responsibility of running the social security system for workers. There are plans to break *Jamsostek's* monopolistic powers and allow private companies to administer the social security system.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems			
Formulation of proposals			
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			